

March 14, 2002

MEMORANDUM TO: Chairman Meserve

FROM: Hubert T. Bell/**RA**/
Inspector General

SUBJECT: MEMORANDUM REPORT - REVIEW OF NRC'S
IMPLEMENTATION OF THE FEDERAL MANAGERS' FINANCIAL
INTEGRITY ACT FOR FISCAL YEAR 2001 (OIG-02-A-09)

This report reflects the Office of the Inspector General's (OIG) assessment of the Nuclear Regulatory Commission's (NRC) compliance with the *Federal Managers' Financial Integrity Act* (FMFIA) for fiscal year (FY) 2001. We found that, for FY 2001, NRC complied with FMFIA. However, we are reporting two material weaknesses: the absence of a managerial cost accounting process and inadequate accounting for internal use software. Because these issues and attendant recommendations are included with OIG's report on NRC's financial statements for FY 2001, this report contains no recommendations.

BACKGROUND

The FMFIA was enacted on September 8, 1982, in response to continuing disclosures of waste, loss, unauthorized use, and misappropriation of funds or assets associated with weak internal controls and accounting systems. Congress felt such abuses hampered the effectiveness and accountability of the Federal Government and eroded the public's confidence. The FMFIA requires Federal managers to establish a continuous process for evaluating, improving, and reporting on the internal controls and accounting systems for which they are responsible.

FMFIA requires that, each year, the head of each executive agency (subject to the FMFIA) shall submit a report to the President and Congress on the status of management controls and financial systems that protect the integrity of agency programs and administrative activities. NRC makes its FMFIA assessment and report in its annual *Accountability Report*.

Office of Management and Budget Circular A-123, Revised, *Management Accountability and Control*, is the implementing guidance for FMFIA. The term "internal controls," as envisioned by the FMFIA, is synonymous with "management controls" and encompasses program and administrative areas, as well as the accounting and financial management areas. NRC Management Directive (MD) 4.4, *Management Controls*, is the agency's implementing guidance for FMFIA and Circular A-123.

RESULTS

NRC complied with FMFIA requirements for FY 2001. Although NRC is not reporting any material weaknesses, OIG is reporting two material weaknesses: the absence of a managerial cost accounting process and inadequate accounting for internal use software. The agency has recognized these issues as significant, but not material, weaknesses.

OIG first reported the lack of managerial cost accounting as a material weakness in the FY 1998 reports on FMFIA¹ and the agency's financial statements.² NRC is actively pursuing a resolution to this issue. However, we will continue to report it as a material weakness until NRC successfully implements managerial cost accounting. NRC expects to implement managerial cost accounting during FY 2002.

Inadequate accounting for internal use software is a new material weakness identified during the audit of NRC FY 2001 financial statements. In 1998, the Federal Accounting Standards Advisory Board issued guidance for agencies to account for the development of internal use software. The Statement became effective October 1, 2000. The guidance prompted the Chief Financial Officers' community to develop policy, redesign systems, designate documentation standards and develop an adoption strategy for the new accounting standard. The NRC, in a very timely and thorough fashion, developed policy guidance for adoption of the standard. However, NRC did not adequately implement the management controls needed to ensure compliance with the accounting standard. A complete description of this material weakness and the lack of adequate management controls is discussed in OIG's audit report on NRC's FY 2001 financial statements (OIG 02-A-08).

During FY 2001, NRC took corrective actions to remedy the material weakness (management controls) for NRC's license fee development process. As a result, this material weakness is closed.

¹ OIG Report 99A-11, *Review of NRC's Implementation of the Federal Managers' Financial Integrity Act for Fiscal Year 1998*, dated March 3, 1999.

² OIG Report 98A-09, *Independent Auditors Report and Principal Statements for the Year Ended September 30, 1998*, dated March 1, 1999.

AGENCY COMMENTS

On March 8, 2002, the CFO and the EDO responded to our draft report (Attachment 1). They disagreed that the lack of managerial cost accounting and inadequate accounting for internal use software are material weakness.

CONCLUSION AND OIG ANALYSIS OF AGENCY COMMENTS

NRC complied with the requirements of the FMFIA for FY 2001. However, OIG disagrees with NRC's assessment that the absence of managerial cost accounting and inadequate accounting for internal use software are not material weaknesses. Both cost accounting and accounting for internal use software are intended to be agency-wide functions to better manage NRC's resources. These issues are material to the agency as a whole, and therefore merit "the attention of the Executive Office of the President," as stated in MD4.4. OIG will report these issues as material weaknesses until the agency implements corrective actions.

SCOPE/CONTRIBUTORS

We evaluated the management controls related to the NRC's implementation of FMFIA for FY 2001, and conducted our work in November and December 2001, in accordance with generally accepted Government auditing standards. This review was conducted by Anthony Lipuma, Team Leader.

If you have any questions or concerns regarding this report, please contact me at 415-5930 or Stephen Dingbaum at 415-5915.

cc: Commissioner Dicus
Commissioner Diaz
Commissioner McGaffigan
Commissioner Merrifield

cc: R. McOsker, OCM/RAM
B. Torres, ACMUI
G. Hornberger, ACNW
G. Apostolakis, ACRS
J. Larkins, ACRS/ACNW
P. Bollwerk III, ASLBP
K. Cyr, OGC
J. Cordes, OCAA
W. Travers, EDO
S. Reiter, CIO
J. Funches, CFO
P. Rabideau, Deputy CFO
J. Dunn Lee, OIP
D. Rathbun, OCA
W. Beecher, OPA
A. Vietti-Cook, SECY
W. Kane, DEDR/OEDO
C. Paperiello, DEDMRS/OEDO
P. Norry, DEDM/OEDO
M. Springer, ADM
R. Borchardt, NRR
G. Caputo, OI
P. Bird, HR
I. Little, SBCR
M. Virgilio, NMSS
S. Collins, NRR
A. Thadani, RES
P. Lohaus, STP
F. Congel, OE
M. Federline, NMSS
R. Zimmerman, RES
J. Johnson, NRR
H. Miller, RI
L. Reyes, RII
J. Dyer, RIII
E. Merschoff, RIV
OPA-RI
OPA-RII
OPA-RIII
OPA-RIV



CHIEF FINANCIAL
OFFICER

UNITED STATES
NUCLEAR REGULATORY COMMISSION

WASHINGTON, D.C. 20555-0001

March 8, 2002

ATTACHMENT

MEMORANDUM TO: Stephen D. Dingbaum
Assistant Inspector General for Audits

FROM: Jesse L. Funches *Jesse L. Funches*
Chief Financial Officer

William D. Travers *William D. Travers*
Executive Director for Operations

SUBJECT: RESPONSE TO DRAFT MEMORANDUM REPORT - REVIEW OF
NRC'S IMPLEMENTATION OF THE FEDERAL MANAGER'S
FINANCIAL INTEGRITY ACT FOR FISCAL YEAR 2001

We have reviewed the subject report and disagree that the incomplete implementation of managerial cost accounting and the deficiencies associated with accounting for internal use software should be considered material weaknesses under the Federal Manager's Financial Integrity Act (FMFIA). At their November 19, 2001, meeting, the NRC's Executive Committee on Management Controls endorsed the conclusion that no material weaknesses had been identified that met the FMFIA criteria. These conditions did not: (1) impair the fulfillment of the mission of the agency or an agency component; (2) deprive the public of needed services; (3) significantly weaken the agency safeguards against waste, loss, unauthorized use or misappropriation of funds, property, or other assets; or (4) result in a conflict of interest. As such, these conditions did not rise to the level of severity that their relative risk warrants external reporting to the President and the Congress. Subsequently, on February 1, 2002, the Chairman certified, with reasonable assurance, that the agency is in compliance with the FMFIA.

Thank you for the opportunity to comment on this report.

cc: J. Craig, OEDO

Contact: Carl F. Dolinka, OCFO
415-5646